
CORPORATE GOVERNANCE IN THE AGE OF AI - USE OF AI FOR EFFECTIVE COMPLIANCE

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ABSTRACT

The modern world is run through the data. The challenging part is the management of these data which will lead to data silos. The corporate world has enormous dealings and these dealings include data streamlining, contract management, legal compliance requirements, and transactions. The most essential requirement is to manage all this by having the concept of sustainable development goals embedded in the mind. It has become an essential requirement for companies to follow the principles of corporate governance while keeping the concept of 'people, planet, and profits' in mind.

Before the advent of AI, one could observe that all the processes were done manually. With the manual procedures, it was very difficult for one to find out the lapses and shortcomings. The processes were time-consuming and the requirement of adequate manpower was a high priority. Furthermore, the traditional manual processes lack expert knowledge, accuracy, and skill.

With AI or technology-driven tools, large corporations were able to tackle the complexities faced due to the application of traditional methodologies. These tools help in achieving compliance, boost productivity, and efficiency, and also aid in the mitigation of risks.

This article deals with the current issues faced by corporations in corporate governance and elaborates on the utility of AI in corporate governance.

Introduction

Corporate Governance refers to the rules, processes, and practices that a company follows to achieve transparency, accountability, and fairness. A company is controlled through the set of principles of corporate governance which is governed by rules, regulations, and laws. These organizations need to adhere to these complex laws in order to avoid penalties, market advantage, reputation, and growth.

The businesses thrive on innovation and technology. It is the current requirement of organizations to adapt to new technologies and bring innovation to their work. This is a key factor which determines the reputation and sustenance of an organization. Advanced technological applications and the use of Artificial Intelligence (AI) will indefinitely help the organization achieve the corporate governance requirements. This will also aid in better management, utilization of resources, stakeholder rights protection, and overall growth of the company.

There are various aspects relating to the adaptation of Artificial Intelligence to organizational processes. An organization must consider and re-consider the action plan and consequences of adapting and shifting to AI or automated processes. There are certain facets in relation to the use of artificial intelligence in organizations.

Issues of Using Manual Tools for Corporate Governance

The concept of Corporate governance holds a company to be fair, transparent, and accountable. There are several sets of rules, regulations, and laws that companies and enterprises need to follow in order to have effective corporate governance. Artificial Intelligence can be helpful in many ways in achieving compliance with these complex rules and regulations. Incorporation of some of the effective AI tools will aid the organization in shifting to a more seamless way of adhering to corporate governance principles.

Oftentimes, when companies use manual methods for documentation, employee management, and complex systems, it becomes difficult to comply with the corporate governance principles which will lead to falling behind in the competition.

Certain manual processes require human touches like the judgments and oversight of directors and higher management. These judgments and decisions should come from the human mind

itself as they involve rationality and logic-related aspects which are essential. However, there are certain aspects which go beyond the human capabilities.

- a) **Manual Processes fall behind in analyzing the scale** - A corporation is a dynamic concept that is ever-evolving. As organizations grow the need for accuracy and risk management grows manifold. This cannot be effectively managed by utilizing manual processes and human resources. Thus, the aid of AI tools becomes essential in decision-making and proper management.
- b) **Errors in Manual Processes** - When humans are the main characters aiding the corporate governance process, it often leads to bias, human errors, inconsistencies, and risks. Even though the persons involved are with clean intentions, human mistakes are inevitable.
- c) **Delayed Insights** - The business environment is often fast-paced and when the processes are carried out in a manual way, it leads to delay and lack of reliability on data, insights, and extraction of critical information. This is time-consuming and risky.
- d) **Strict and Ever-evolving Regulations** - The laws, rules, and regulations pertaining to Corporate Governance are ever-evolving and dynamic. Organizations with this burden of compliance oftentimes struggle to comply with these difficult provisions with the manual processes.
- e) **Absence of Agility and Accuracy** - Manual processes are not swift and agile as they require human intervention every now and then. This is when AI tools come in handy for moving too quickly, detailing and adapting to market trends, and complex legalities relating to corporate governance.

Various Effective AI Tools for Effective Corporate Management

The incorporation of AI by organizations for corporate governance has been a game-changer. It has developed organizations to be more honest, accountable, and fair when it comes to their dealings with the major stakeholders.

Organizations use AI tools to achieve their goals in relation to various aspects of corporate governance. Some key areas include:

1. **Employee Management** - The employee is one of the major stakeholders of a company and the protection of employee rights is one of the major goals that a company has. Artificial Intelligence tools specifically made for employee management will aid in achieving this specific goal. These tools help in payroll processing, employee training, performance evaluations, and grievance redressal on the part of the employees. With such core tools, the Human Resources department will be able to make employee-friendly and accurate decisions based on the data processed. This indefinitely helps the company to manage the employees and their rights more effectively.
2. **AI Decision-Making Systems** - The tools that aid in decision-making help the executives and board members to analyze real-time insights and provide recommendations for them to make decisions. However, human intervention is required here to avoid risks that may be caused due to AI's decisions beyond human rationale.
3. **Contract Management** - Contract Management forms a key aspect of Corporate Governance. AI-based contract management platforms will streamline and make the entire contract life cycle management simple. From drafting, negotiation, and execution, it ensures risk mitigation, and analysis of terms, and boosts efficiency and compliance with laws. Some of the AI tools also provide notifications for important dates and times.
4. **Due Diligence in Corporate Governance** - Due diligence is another key aspect of corporate governance. When there is a Merger or acquisition, it is the responsibility of the Board to initiate the due diligence process to check the risks involved in transactions, and to investors or customers.

There are certain AI tools that aid in the due diligence process from the beginning to the end. It can detect and analyze vast data, help in legal compliance, and provide accurate analytics. It has the capacity to scan through lakhs of financial records, contracts, legal documents, and regulatory documents and identify potential risks and liabilities.

5. **Data Protection** - There are strict regulations around the world like the General Data Protection Regulation, California Privacy Rights Act (CPRA), India's Digital Personal Data Protection Act (DPDPA), and so on. These Acts make it compulsory for

enterprises to safeguard personal data belonging to the customers. With AI tools that aid in encryption anonymization and cookie policy management, data protection can be achieved and anomalies and data breaches can be prevented. The non-compliance with the provisions of the act and the causing of data breaches will lead to the companies paying hefty sums as penalties.

6. **Tech-Support and Management** - AI tools will aid the employees management, and customers to cure the technology-related issues. The use of AI assistants, chatbots, diagnostic systems, and team management bots will undoubtedly help in effective management and in building user-friendly and agile systems.

Future of AI in Corporate Governance and Complexities Involved

The new era of AI is indeed helpful in achieving corporate governance. It will help in boosting efficiency, transparency, and fairness among the organizations more effectively and seamlessly.

- The use of AI in predicting market trends, analytics, risks involved, consumer behavior, regulatory changes, and progress will eventually help the organization make key decisions with accuracy and it will indefinitely help the organization to stay ahead.
- Automation of daily routine tasks will aid the company in reducing the workforce, like compliance detailing, note taking and summarizing, documentation, and regulatory filing like tax payments.

A classic example is the use of software known as fireflies.ai on online meeting software as an add-on which will take down the key notes of the meeting without the help of a human assistant to note down the key details of the meeting.

- **Automated Decision-Making** - Although automated decision-making is not entertained anywhere due to the lack of trust in AI, the automated decision-making area is developing. AI will extract key information from various data sources and analyze the same before making the decision. It is always better to have a human-aid when it comes to automated decision-making.
- **Need-specific AI solutions** - An organization will be able to get modified and customized versions of AI specifically needed to cater to their needs of corporate

governance.

Conclusion

In short, the incorporation of Artificial intelligence is highly beneficial for the company in their compliance and adherence to Corporate Governance principles. The incorporation will indefinitely help the company in decision-making, risk mitigation, regulatory compliance, gaining market advantage, and so on. However, it is essential to have an intervention and monitoring when it comes to automated decision-making and automated filings, compliance, and document transfers. The advancement of AI and incorporation of the advanced versions of AI has its own benefits and shortcomings. It is necessary for the company to decide on what activities should be shifting to AI.

References

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